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Fuel Focus

*Understanding Gasoline Markets in Canada
and Economic Drivers Influencing Prices*

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National Overview

Canadian Retail Gasoline Prices Increased 1 Cent per Litre from Last Week

Average Canadian retail gasoline prices for the week ending May 29, 2012, increased by nearly 1 cent per litre to \$1.29 per litre compared to the previous week. Despite lower crude oil prices, wholesale gasoline prices increased, which led to the retail price increase.

However, gasoline prices are 8 cents per litre lower than their most recent peak of \$1.37 per litre on April 17, 2012. Prices are nearly 1 cent per litre lower than at this time last year.

Diesel fuel prices declined by 1 cent per litre to \$1.24 per litre for the week of May 29, 2012. This is almost unchanged compared to last year during the same period. Furnace oil prices declined by 3 cents per litre from the previous week to \$1.15 per litre.

Recent Developments

- Gasoline Prices to Parallel Summer of 2011:** According to the National Energy Board (NEB), Canadians will likely pay similar prices at the pump this summer compared to last, while natural gas prices and electricity wholesale prices will remain relatively low due to supply surpluses. Regular gasoline is forecast to average between C\$1.20 and \$1.35 per litre based on the West Texas Intermediate (WTI) crude price likely averaging around US\$100 per barrel. WTI is expected to continue to trade at a discount to world benchmarks as a result of ongoing supply and demand imbalances and pipeline bottlenecks in mid-North America. (Source: NEB, <http://www.neb-one.gc.ca/clf-nsi/rthmb/nwsrls/2012/nwsrls10-eng.html>)
- Imperial Oil's Dartmouth Refinery:** On May 17, 2012, Imperial Oil announced its intention to sell its refinery in Dartmouth, Nova Scotia. Expressions of interest from serious bidders will be considered throughout this year. If the sale of the refinery does not go through, the option of converting the refinery into a terminal will be explored and a decision will be made by March 31, 2013. (Source: Imperial Oil News Release, May 17, 2012)
- Increase in Domestic Gasoline Sales:** Motor gasoline sales increased nearly 4% to 11 billion litres in the first quarter of 2012 compared to the same period in 2011. Diesel fuel sales rose 3% to 7 billion litres, while light fuel oil (furnace oil) decreased 18% to 1 billion litres in the same time period. (Source: NRCan and Statistics Canada)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

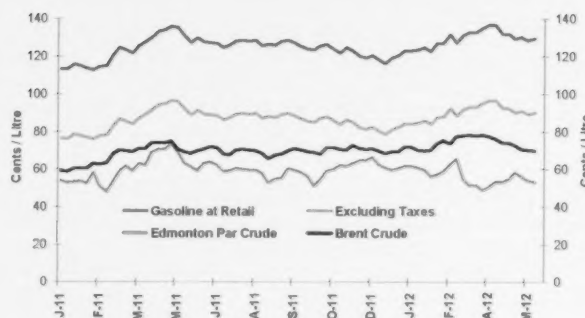
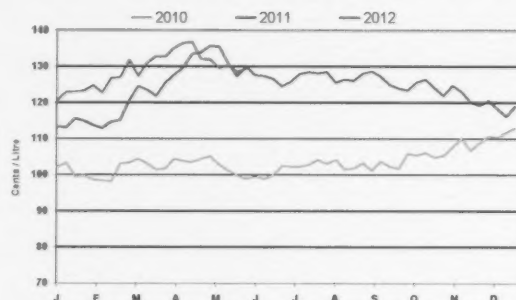


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
		Previous Week	Last Year
¢/L	2012-05-29		
Gasoline	129.3	+0.8	-0.6
Diesel	123.9	-0.9	-0.1
Furnace Oil	115.2	-3.0	+0.6

Source: NRCan

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Retail Gasoline Overview

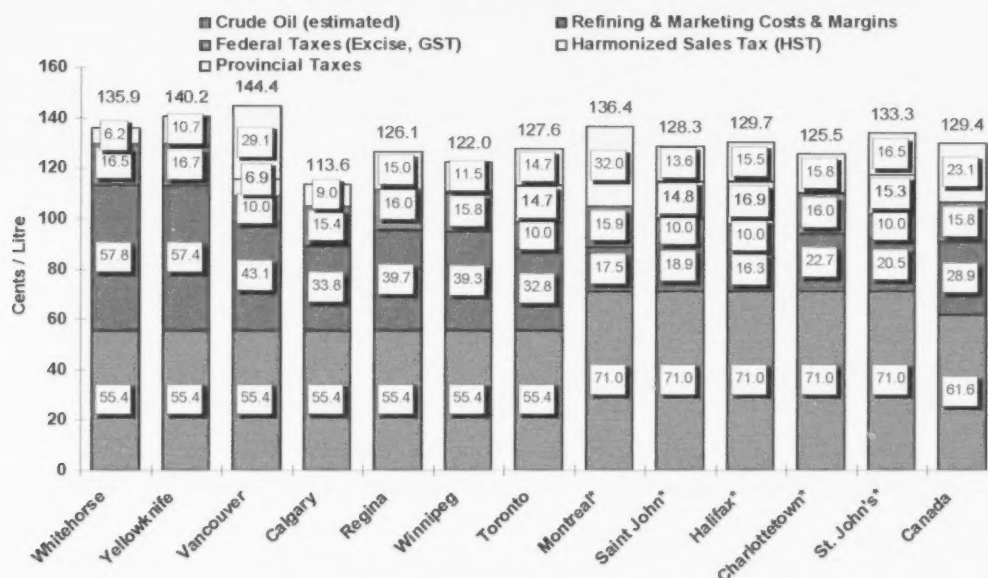
The average Canadian pump price in selected cities for the **four-week average** ending May 29, 2012, was \$1.29 per litre, a decrease of less than 2 cents per litre from the last report on May 18, 2012. This represents a 1-cent-per-litre decrease compared to the same period in 2011.

The **four-week average** crude oil price decreased by nearly 1 cent per litre to 62 cents per litre compared to two weeks ago.

Retail gasoline prices in most Western centres (Vancouver to Winnipeg) decreased by less than 1 cent per litre when compared to the previous report, and ranged from \$1.14 per litre to \$1.44 per litre. Prices in Eastern cities (Toronto to St. John's) dropped 3 cents per litre, and ranged from \$1.26 per litre to \$1.36 per litre.

At the national level, refining and marketing costs and margins registered a decrease of less than 1 cent per litre to 29 cents per litre. This represents an increase of nearly 3 cents per litre compared to the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (May 8 to 29, 2012)**



Source: NRCan

* Regulated Markets

Canada's Downstream Logistical Infrastructure

The logistical infrastructure associated with the manufacture, transport, storage and sale of petroleum products can be summarized in terms of several key elements:

- Refineries
- Pipelines
- Marine transportation (ships and barges)
- Primary storage and distribution terminals
- Rail transportation
- Bulk plant (tertiary) storage facilities
- Road transport "tanker trucks"
- "End-Use" facilities (gas stations, cardlocks, Fixed-Based Operators) and customer-based storage/fuelling facilities

In Canada, large-scale movements of petroleum products generally occur within four regional supply "orbits". These orbits are defined as regions within which a great deal of product movement occurs and outside of which very little product is interregionally imported or exported. The geographic domains of these orbits are: Western Canada; Southern Ontario; Montreal and Quebec City; Atlantic Canada.

Source: MJ Ervin & Associates, Canada's Downstream Logistical Infrastructure: Refining, Pipelines, Terminals, Bulk Plants & Cardlocks.



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Wholesale Gasoline Prices

For the **week of May 24, 2012**, wholesale gasoline prices increased in most of the selected centres compared to the previous week. Overall, price changes ranged from an increase of 2 cents per litre to a decrease of nearly 2 cents per litre.

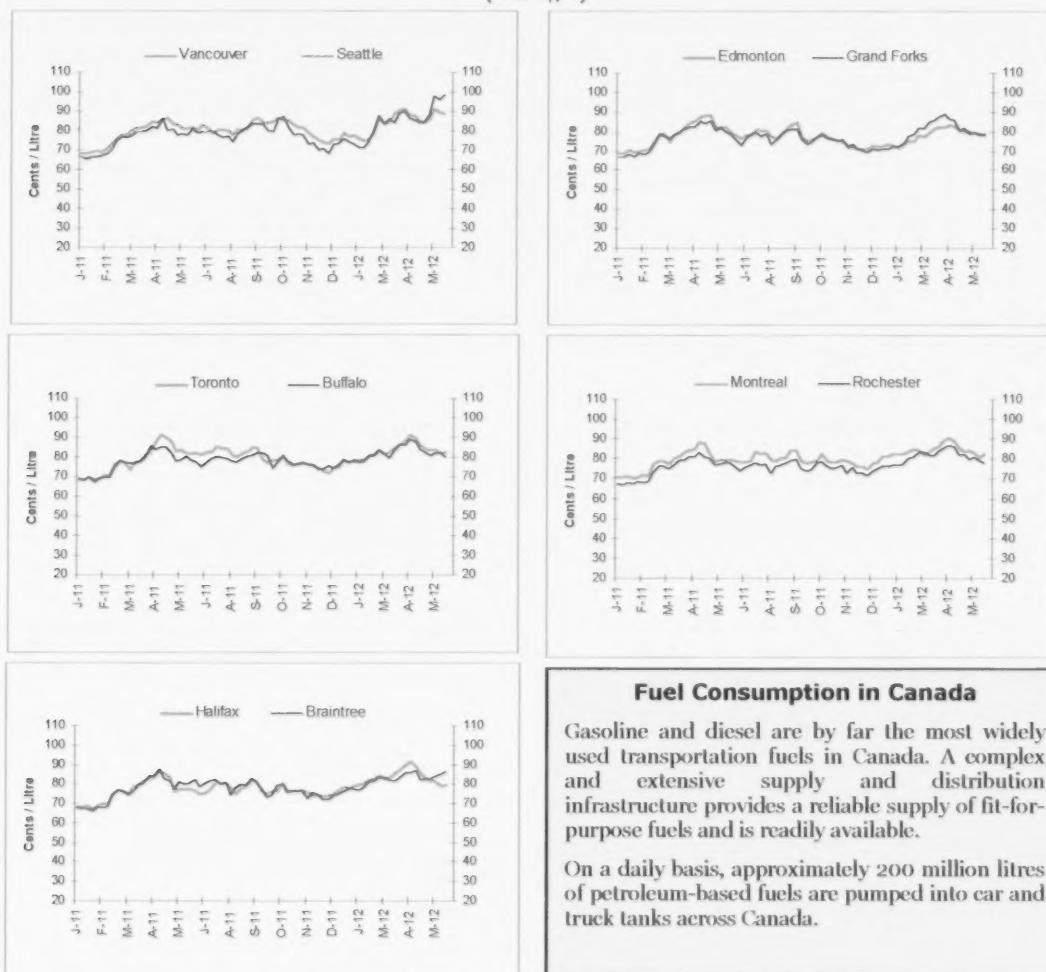
Wholesale gasoline prices in Eastern markets in both Canada and the United States, compared to the previous week, have registered increases ranging from 2 cents per litre to decreases of 2 cents per litre and ended the period in the range of 78 to 86 cents per litre.

In comparison, Western wholesale gasoline price changes ranged from a drop of less than 1 cent per litre to an increase of more than 2 cents per litre and ended in the range of 78 to 98 cents per litre.

Unusually low refinery runs on the U.S. West Coast since February has tightened the local gasoline markets, causing wholesale gasoline prices to rise in Seattle.

In the last four weeks, changes in wholesale prices in selected Canadian and American centres ranged from decreases of 4 cents per litre to increases of 14 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending May 24, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Fuel Consumption in Canada

Gasoline and diesel are by far the most widely used transportation fuels in Canada. A complex and extensive supply and distribution infrastructure provides a reliable supply of fit-for-purpose fuels and is readily available.

On a daily basis, approximately 200 million litres of petroleum-based fuels are pumped into car and truck tanks across Canada.





Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins for gasoline have fluctuated downward in the last five weeks. This is indicative of an adequate supply to meet the expected demand. These margins are the difference between the cost of the crude oil and the wholesale price at which a refiner can sell gasoline. As demand for gasoline rises, inventories are drawn down and wholesale gasoline prices are driven up as markets try to rebalance.

Nationally, marketing margins continue to hover at close to 8 cents per litre. As shown for Calgary and Montreal, this margin can be fairly volatile as outlets compete for market share.

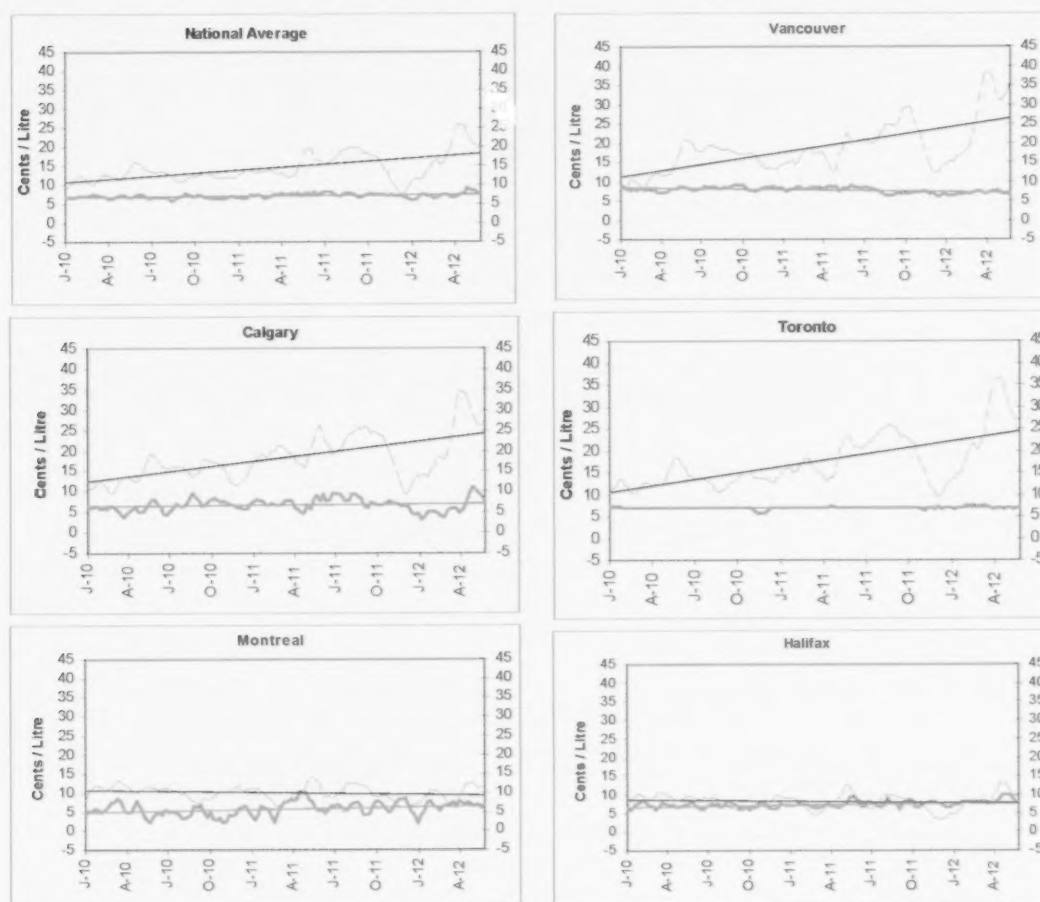
Although it represents a small portion of the total pump price, the marketing margin can vary significantly from city to city and region to region depending on the local market conditions in each area.

Figure 5: Gasoline Refining and Marketing Margins

Four-Week Rolling Average Ending May 29, 2012

----- Refining Margin

—— Marketing Margin



Source: NRCan





Crude Oil Overview

Global Crude Oil Prices on the Decline

For the week ending May 25, 2012, prices for the three marker crudes averaged \$533/m³ and \$699/m³ (US\$83 to US\$109 per barrel). This is a decrease of \$6 to \$12/m³ (US\$2 to US\$3 per barrel) from the previous week.

World crude oil prices continue to fluctuate downward, a trend held since March 2012 for WTI and Brent. Crude oil market fundamentals, namely U.S. inventory levels and oil demand linked to a lower economic forecast, help moderate price rises. Analysts forecast a low level fluctuation for benchmark crude oil prices for the remainder of the year and into 2013 (see text box below).

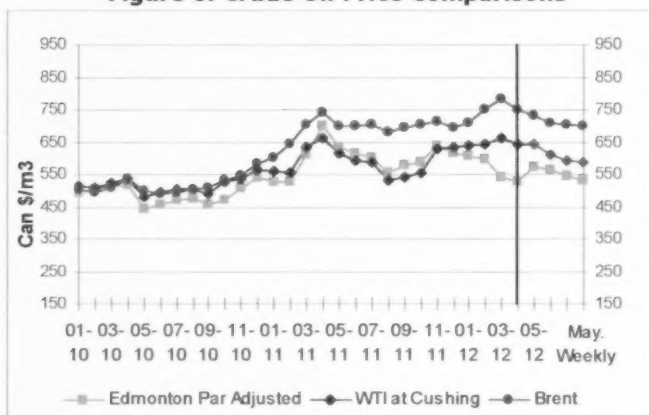
North American crude oil prices (WTI, Edmonton Par) continue to be considerably discounted versus

international prices such as Brent not subject to transportation bottlenecks.

A return to better economic conditions in industrialized countries could trigger growth in the Gross National Product and, in turn, oil demand and price increases.

However, current market conditions are not necessarily favorable for a rise on crude oil prices, at least in the short term. Historically, the years between 2003 and 2008 experienced periods of strong economic growth (in the U.S. and Canada), slow supply growth of oil and OPEC's tight spare production capacity, which saw oil prices peak in 2008. Following their precipitous drop in 2009, prices have since recovered, but hover in a narrow range mainly due to weak economic growth.

Figure 6: Crude Oil Price Comparisons



U.S. Short-Term Energy Outlook

EIA's current forecast of the average U.S. refiner acquisition cost of crude oil in 2012 is \$110 per barrel, which is \$2.50 per barrel lower than in last month's Outlook, but still about \$8 per barrel higher than last year's average price. EIA expects the price of West Texas Intermediate (WTI) crude oil to average about \$104 per barrel in 2012, about \$2 per barrel lower than the forecast in last month's Outlook, but \$9 per barrel higher than the 2011 average price. EIA expects crude oil prices to remain relatively flat in 2013.

With falling global crude oil prices over the past month, EIA has lowered the average regular gasoline retail price forecast for the current April-through-September summer driving season to \$3.79 per gallon, 16 cents per gallon below the level in the previous Outlook. EIA expects regular gasoline retail prices to average \$3.71 per gallon in 2012 and \$3.67 per gallon in 2013, compared with \$3.53 per gallon in 2011.

Source: EIA, <http://www.eia.gov/forecasts/steo/index.cfm>

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-05-25		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	532.54	82.62	-12.37	-3.12	-63.97	-14.44
WTI	586.07	90.93	-5.76	-2.19	-27.09	-8.84
Brent	699.49	108.53	-2.74	-1.96	+1.46	-5.05

Source: NRCan



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